June 25, 1998

Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Congressional Budget Office has reviewed H.J. Res. 121, a joint resolution disapproving the President's recommendation to extend most-favored-nation (MFN) status to the People's Republic of China, as adversely reported on June 25, 1998, by the Committee on Ways and Means. CBO estimates that disapproving the extension of MFN status to the People's Republic of China would increase receipts by $135 million in fiscal year 1998 and by $405 million in fiscal year 1999.

Under the Trade Act of 1974, MFN status may not be conferred on a country with a nonmarket economy if that country maintains restrictive emigration policies. Under present law, however, the President may waive this prohibition on an annual basis if he certifies that granting MFN status would promote freedom of emigration in that country. The People's Republic has received MFN status through presidential proclamation on an annual basis beginning in 1980. On June 3, 1998, President Clinton transmitted to Congress his intention to waive the emigration prohibition and extend MFN status to the People's Republic of China for an additional year, beginning July 3, 1998. H.J. Res. 121 would disapprove the President's recommendation to extend MFN treatment.

If the People's Republic were denied MFN status, tariff rates on its exports to the U.S. would rise substantially. The higher tariffs on these goods would increase the prices faced by U.S. consumers for the goods imported from the People's Republic, reducing demand. Therefore, imports of goods from the People's Republic would be lower than they would be if MFN status were to be extended. CBO estimates that the increased tariff rates caused by the loss of MFN status would cause an overall increase in customs duty receipts measured relative to revenues generated under continued MFN status. Because imports from the People's Republic would decline substantially, customs duties collected on Chinese imports to the U.S. would fall, but it is likely that some of the decline in U.S. imports from the People's Republic would be made up by an increase in imports from other MFN countries. CBO estimates that the increase in revenues from this effect would outweigh the reduction in revenues from the reduced level of imports from the People's Republic. The budget effects of the bill are shown in the following table.

Revenue Effects of H.J. Res. 121
(By fiscal year, in billions of dollars)

	1998	1999	2000	2001	2002
Projected Revenues Under Current Law[a]	1,710.491	1,773.298	1,822.745	1,885.171	1,965.978
Proposed Changes	0.135	0.405	0	0	0
Projected Revenues Under H.J. Res. 121	1,710.626	1,773.703	1,822.745	1,885.171	1,965.978

a. Includes the revenue effects of P.L. 105-178 (H.R. 2400).

The proposed legislation contains no intergovernmental mandates as defined in Public Law 104-4 and would impose no direct costs on state, local, or tribal governments. The increased tariff rates on products from the People's Republic caused by the loss of MFN would impose a private-sector mandate on importers of Chinese products into the United States. The private-sector mandate would exceed $100 million in both fiscal years 1998 and 1999. Taxes would increase by $0.1 billion in 1998 and by $0.4 billion in 1999. In addition to these increased tariffs, firms would incur additional costs when they substitute goods from other MFN countries or domestic producers.

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that H.J. Res. 121 would affect receipts. Therefore, pay-as-you-go procedures would apply. The pay-as-you-go impact is summarized below.

Pay-as-You-Go Consideration
(By fiscal year, in millions of dollars)

	1998	1999	2000
Changes in Outlays		Not Applicable	
Changes in Receipts	135	405	0

If you wish further details, please feel free to contact me or your staff may wish to contact Hester Grippando.

Sincerely,

June E. O'Neill
Director

cc: Honorable Charles B. Rangel
Ranking Minority Member